THIRD QUARTER REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2019

22 OCTOBER 2019

ASX: OSH | ADR: OISHY | PNGX: OSH

THREE MONTHS ENDED	SEP 2019	JUN 2019	% CHANGE	SEP 2018	% CHANGE
Total production (mmboe)	**6.81**	6.88	*-1%*	7.53	*-10%*
Total sales (mmboe)	**6.47**	6.74	*-4%*	7.44	*-13%*
Total revenue (US$m)	**361.1**	378.9	*-5%*	474.9	*-24%*

❖ HIGHLIGHTS

❖ **Strong PNG LNG Project production rates in July offset by impact of mooring buoy damage in August/ September**

Total production for the third quarter of 2019 was 6.8 million barrels of oil equivalent (mmboe), marginally lower than in the prior quarter. Production from the PNG LNG Project and the Oil Search-operated oil fields was curtailed during part of August and in September, due to reduced rates of liquids loading following the detection of damage to one of the mooring chains at the Oil Search-operated offshore liquids loading facility in the Gulf of Papua. Repair work on the damaged chain was completed in mid-October, with standard loading operations reinstated and production now ramping up to normal rates. The PNG LNG Project contributed 6.2 mmboe net to Oil Search based on an annualised gross production rate of 8.3 MTPA for the quarter, 20% above nameplate capacity, with an annualised gross production rate of just under 9 MTPA achieved in July. Due to the loading issue, Oil Search 2019 full year production guidance has been revised to 27 – 29 mmboe, from 28 – 31 mmboe.

Revenue for the quarter reflected lower product sales and timing of shipments, with three LNG cargoes on the water at the end of the quarter, weaker global oil prices and a higher proportion of condensate relative to oil in the product mix.

❖ **Papua Gas Agreement validated, discussions recommence on P'nyang Gas Agreement**

In early September, the PNG Cabinet completed its review of the Papua LNG Gas Agreement, validating the agreement executed on 9 April 2019. Key legislative changes required under the Agreement were passed by Parliament in mid-October. Discussions regarding the P'nyang Gas Agreement recommenced late in the third quarter, with the PRL 3 Joint Venture and the PNG Government committed to its timely completion to ensure the proposed integrated three-train LNG development, underpinned by gas from the PRL 3 and Papua LNG joint ventures, can proceed into the Front-End Engineering and Design (FEED) phase as soon as possible.

❖ **Pikka Unit development in Alaska on track to enter FEED by end 2019**

Work took place during the quarter on optimising the Pikka Unit development. In addition to maturing plans for early production, potential debottlenecking opportunities for the full field development facilities were reviewed, which could increase throughput from 120,000 barrels of oil per day (bopd) to up to 150,000 bopd. An investment bank has been engaged to assist Oil Search undertake a partial sell-down of the Company's Alaskan equity interest, which is targeted to take place in mid-2020, prior to the Final Investment Decision (FID) on the Pikka Unit development.

- **Dr Keiran Wulff to succeed Peter Botten as Oil Search Managing Director**

  In early October, the Oil Search Board advised that Dr Keiran Wulff, Oil Search's Executive Vice President, Alaska and President of Oil Search Alaska, will succeed Peter Botten as Managing Director when Mr Botten retires on 25 February 2020. Mr Botten, who is one of longest serving CEOs in the ASX 200, will remain with the Company until 25 August 2020, supporting the Company as the PNG LNG, P'nyang and Papua LNG Joint Venture partners move towards an FID on LNG expansion in PNG.

- **Liquidity position remains robust**

  Oil Search ended the third quarter with liquidity of US$1.18 billion, comprising US$547.3 million in cash and US$635.7 million in undrawn credit facilities. During the quarter, the Company executed US$300 million of one-year corporate credit facilities, to provide additional financial flexibility as part of the funding for the Alaskan Option payment of US$450 million, which occurred in late August.

COMMENTING ON THE 2019 THIRD QUARTER RESULT, OIL SEARCH MANAGING DIRECTOR, PETER BOTTEN, SAID:

"The PNG LNG Project produced at a gross annualised rate of nearly 9 MTPA in July. However, in August and September, it was necessary to reduce Project production rates for a short time when damage to one of the six mooring chains at the offshore liquids loading facility was detected. This prevented normal liquids loading procedures and consequently reduced ullage within the liquids storage system. Despite these production disruptions, annualised gross PNG LNG production for the quarter averaged 8.3 MTPA, 20% above nameplate capacity, and the average annualised production rate for the nine months to 30 September 2019 was 8.5 MTPA.

Due to the offshore loading issue, crude production from the Kutubu, Moran and Agogo fields was curtailed or shut-in in August and September, with priority access to available liquids storage given to PNG LNG condensate. Oil Search continued to supply feed stock gas to the PNG LNG Project during the curtailment period.

Following the mobilisation of materials and equipment to site, repairs to the damaged mooring chain were completed successfully in mid-October and normal loading operations have now resumed, with production ramping up. As a precaution, maintenance work on the other mooring chains at the facility has commenced.

Total revenue for the third quarter was US$361.1 million, 5% lower than the prior quarter, reflecting lower sales, weaker realised oil and condensate prices and the timing of LNG cargoes, with three cargoes on the water at the end of the period, compared to two at the end of the second quarter."

LNG expansion nearing FEED entry

"In early September, the PNG Cabinet completed its review of the Papua LNG Gas Agreement, validating the agreement executed on 9 April 2019. Procedural requirements for legislative amendments required by the Papua LNG Gas Agreement were finalised by the State and the key amendments passed by Parliament in mid-October, which is a major step forward for the project.

Discussions between the PRL 3 Joint Venture and the PNG Government on the P'nyang Gas Agreement recommenced late in the third quarter, with the agreement targeted to be signed before year end. The completion of the P'nyang Gas Agreement will allow this world-class, three-train integrated brownfield LNG expansion project, underpinned by gas from P'nyang and Papua LNG, to proceed into the FEED phase.

With the necessary agreements for Papua LNG to access the PNG LNG downstream facilities essentially completed in the first half of 2019, the PRL 15 and PNG LNG joint ventures made good progress on several other required agreements, including the integrated Lifting and Tank Balancing Agreement. In addition, following the execution of the PRL 3 binding Letter of Intent with Santos in the second quarter, the PRL 3 Joint Venture commenced negotiations on a fully termed Sales and Purchase Agreement (SPA). Oil Search expects the SPA to be executed, together with the full suite of integration agreements, at FEED entry.

Oil Search continued to engage with buyers in North East Asia during the period, as well as with LNG traders, who are becoming more active in seeking long-term project offtake. Talks with potential buyers are expected to intensify once the expansion projects enter FEED."

Continued success in PNG oil field optimisation programme

"During the quarter, the Moran 15 ST2 development well successfully encountered oil within the Toro and Digimu sands in the south-east section of the field. The well is currently being tied in, with production from the Moran 15 ST2, IDT 21 and Moran 9 wells all expected back online in the fourth quarter, now that the mooring buoy issue has been resolved. The Usano development well, UDT 15, encountered oil in the Toro reservoir during the quarter. Drilling operations have been completed and the well is also expected to be online in the fourth quarter."

High value PNG exploration well planned at Gobe

"The Company plans to spud an exploration well, Gobe Footwall, in the fourth quarter of 2019, following encouraging results from the seismic survey acquired in 2018. The well, which will be drilled from an existing wellpad in the Gobe Main field, is targeting a large feature which, if successful, could be cost-effectively tied into the existing Gobe production facilities, extending the life of the mature Gobe fields and consequently deferring field abandonment. Well results are expected in the first quarter of 2020.

Subject to joint venture approvals, Gobe Footwall is expected to be followed by the GM K gas development well, which will be drilled from the same wellpad or, in the event that Gobe Footwall is unsuccessful, as a sidetrack from the Gobe Footwall wellbore, reducing wellpad preparation and rig mobilisation costs."

Pikka Unit development in Alaska advances toward FEED entry

"During the third quarter, work continued on optimising the Pikka Unit development plan.

The Company is targeting first production in 2022 of approximately 30,000 bopd from a single drill site, with initial processing handled through existing or leased facilities. This early production system will allow lessons learned from early drilling and completions to be used in the final project design.

Full field production facilities with a design capacity of approximately 120,000 bopd are targeted to be onstream in late-2024. During the quarter, debottlenecking opportunities, which could increase throughput to up to 150,000 bopd, were reviewed. Integration of data from the 2018/19 drilling programme and regional data has confirmed that no further appraisal drilling is necessary to advance the Pikka Unit development into the FEED phase, which is expected to commence in late 2019, with an FID targeted for mid-2020. The Company continued to advance necessary permits and land use authorisations for development, while discussions with nearby operators for further cooperation and the sharing of facilities are maturing well.

As previously advised, analysis of data from the 2018/19 drilling programme, early seismic reprocessing results and additional data from analogous formations indicate a likely material upgrade of resource estimates for the Pikka Unit Nanushuk reservoir and satellite fields, above the 500 mmbbl (gross) acquisition case. This data is currently undergoing evaluation by an independent expert and the Company will issue updated resource figures when the development enters FEED.

Planning for the 2019/20 drilling programme continued during the quarter. The programme will comprise two wells, Mitquq in the Pikka East Block and Stirrup in the Horseshoe Block. The Mitquq prospect is located approximately 10 kilometres from the planned Pikka ND-A pad, providing the potential for a value-accretive tie-back to planned Pikka infrastructure, if successful. The Stirrup exploration well will target a large structure west of the Horseshoe discovery and south-west of the Pikka Unit, in a similar geological setting. If a discovery is made, it has the potential, together with Horseshoe, to be able to underwrite a standalone development.

In addition to preparing for the winter exploration programme, final preparations are underway to begin laying gravel this winter, in order to construct the ND-B drilling pad, the road and bridge connecting it to existing infrastructure and the Pikka project operations and processing facility pad.

In September, Oil Search engaged an investment bank to manage the sale of a 15% equity stake in the Company's core Alaskan leases, which would reduce Oil Search's interest from 51% to 36%. The sell-down is anticipated to be agreed in mid-2020, after the resource update and the 2019/20 exploration drilling programme have been completed but prior to taking the FID on the Pikka Unit development."

Dr Keiran Wulff appointed as Managing Director from February 2020

"I am delighted that Keiran Wulff has been appointed by the Board to be Oil Search's next Managing Director when I step down on 25 February 2020. Keiran's key focus between now and mid-December 2019, when Bruce Dingeman, currently Oil Search Alaska's Chief Operating Officer, takes over Keiran's role as President Alaska, will be to guide the Company's entry into FEED for the Pikka Unit development.

I am committed to ensuring a smooth transition from myself to Keiran and assisting the Company and our joint venture partners as we move towards an FID on the LNG developments in PNG, as well as on any other matters, as required.

Having known Keiran for more than 30 years, I am extremely confident in his abilities to deliver our exciting growth projects and lead the Company into the future.

It has been an honour to be Oil Search's Managing Director for the past 25 years and guide the Company on its journey from a small explorer to one of the largest oil and gas producers on the ASX. I'm particularly proud of the Company's contribution towards significant social and economic development of Papua New Guinea and look forward to continuing my association with Oil Search and PNG as Chairman of the Oil Search Foundation, Chair of the Hela Provincial Health Authority and as a member of the Australia - PNG Business Council Executive Committee."

External recognition of Oil Search's sustainability

"In late September, Carbon Tracker published a new report titled "Paris Aligned Investment Report", which examines oil and gas investments that would be required under different climate change scenarios, including a "Paris-aligned" scenario. Oil Search was ranked in the top quartile for climate change transition risk, which was consistent with Carbon Tracker's July 2018 report where the Company was placed in the top quartile of oil and gas companies in terms of having the lowest exposure to climate change transition risk. This followed the Company's inclusion in July in the Dow Jones Sustainability Index (DJSI) World and DJSI Australia, for the third successive year. DJSI highlighted strong progress in our performance in the areas of risk management, social reporting and corporate citizenship and philanthropy and Oil Search remains above average in our industry standing.

In addition, Oil Search achieved a 'Leading' rating in the Australian Council of Superannuation Investors' (ACSI) annual review of the level of ESG reporting by ASX200 listed companies, released in August 2019."

Revised guidance for the 2019 full year

"Due to the offshore liquids loading facility issue, which negatively impacted production during the third quarter, production guidance for the 2019 full year has been revised to 27 – 29 mmboe, from 28 - 31 mmboe previously.

Unit production costs are now expected to be between US$12 and 13/boe, reflecting the lower production base, costs associated with the repairs to the mooring buoy and lower insurance receipts for earthquake remediation activities than previously anticipated. Other operating costs have risen marginally, to US$140 - 150 million, due to lower operator overhead recoveries, SE Mananda site restoration provisions and execution costs incurred for the Alaskan Option and sell-down process.

Capital cost guidance has been reduced materially due to the deferral of spending on FEED activities for LNG expansion and adjusted work programmes on Oil Search-operated assets. The cost of Pikka Unit development early works, which was previously included in Development capex, is now captured in Exploration and Evaluation capex."

Year to December 2019[1]	PREVIOUS GUIDANCE	CURRENT GUIDANCE
Production		
Oil Search operated (PNG oil and gas)[2,3] (mmboe)	3.2 – 4.4	2.8 – 3.5
PNG LNG Project		
LNG (bcf)	110 – 115	108 – 112
Power (bcf)	0.7 – 1.1	0.7 – 1.1
Liquids (mmbbl)	3.1 – 3.5	3.0 – 3.3
Total PNG LNG Project[2] (mmboe)	25 – 26	24 – 26
Total production (mmboe)	**28 – 31**	**27 - 29**
Operating costs		
Production costs (US$ per boe)[4]	11.00 – 12.00	12.00 – 13.00
Other operating costs[5] (US$m)	135 – 145	140 – 150
Depreciation and amortisation (US$ per boe)	12.00 – 13.00	12.00 – 13.00
Investment expenditure		
Production (US$m)	95 – 115	75 – 85
Development – oil and gas (US$m)	110 – 135	25 – 30
Exploration and evaluation (US$m)	*290 - 340*	*294 - 324*
Alaska Option exercise (US$m)	*450*	*450*
Repsol farm-down (net) (US$m)	*(64)*	*(64)*
Total exploration and evaluation (US$m)	676 – 726	680 – 710
Other plant and equipment (US$m)	50 – 60	30 – 40
Power (US$m)	20 – 25	13 – 18
Total (US$m)	**951 – 1,061**	**823 – 883**

1. Numbers may not add due to rounding.
2. Gas volumes have been converted to barrels of oil equivalent using an Oil Search specific conversion factor of 5,100 scf = 1 boe, which represents a weighted average, based on Oil Search's reserves portfolio, using the actual calorific value of each gas volume at its point of sale.
3. Includes SE Gobe gas sales exported to the PNG LNG Project (OSH – 22.34%).
4. Guidance includes the total financial impact of earthquake remediation.
5. Includes gas purchase costs, royalties and levies, selling and distribution costs, rig operating costs, power expense, corporate administration costs (including business development), expenditure related to inventory movements and other expenses.

PRODUCTION SUMMARY[1]

	QUARTER END			YEAR TO DATE		FULL YEAR
	SEP 2019	**JUN 2019**	**SEP 2018**	**SEP 2019**	**SEP 2018**	**DEC 2018**
PNG LNG Project[2]						
LNG (mmscf)	27,336	27,312	29,404	82,797	68,346	96,826
Gas to power (mmscf)	166	140	170	461	503	674
Condensate ('000 bbls)	703	704	816	2,142	1,907	2,678
Naphtha ('000 bbls)	75	78	83	231	196	276
Total PNG LNG Project (mmboe)	**6.170**	**6.164**	**6.697**	**18.699**	**15.603**	**22.071**
PNG crude oil production ('000 bbls)						
Kutubu	289	374	415	1,075	1,164	1,633
Moran	2	33	58	123	194	310
Gobe Main	3	3	4	10	11	15
SE Gobe	7	9	11	26	25	35
Total oil production ('000 bbls)	302	419	489	1,234	1,394	1,933
SE Gobe gas to PNG LNG (mmscf)[3]	258	397	313	1,067	1,025	1,400
Hides GTE Refinery Products[4]						
Sales gas (mmscf)	1,336	1,019	1,300	3,712	2,631	4,000
Liquids ('000 bbls)	25	20	27	71	55	83
Total oil, condensate and naphtha (mmbbl)	**1.105**	**1.221**	**1.414**	**3.679**	**3.552**	**5.030**
Total LNG and gas (mmscf)	**29,096**	**28,868**	**31,186**	**88,038**	**72,505**	**102,899**
Total barrels of oil equivalent ('000 boe)[5]	**6,810**	**6,882**	**7,529**	**20,941**	**17,769**	**25,206**

1. Numbers may not add due to rounding.
2. Production net of fuel, flare, shrinkage and SE Gobe wet gas.
3. SE Gobe wet gas reported at inlet to plant, inclusive of fuel, flare and naphtha.
4. Hides GTE production is reported on a 100% basis for gas and associated liquids purchased by the Hides (GTE) Project Participant (Oil Search 100%) for processing and sale to the Porgera power station. Sales gas volumes are inclusive of approximately 2% unrecovered process gas.
5. Gas and LNG volumes have been converted to barrels of oil equivalent using an Oil Search specific conversion factor of 5,100 scf = 1 boe, which represents a weighted average, based on Oil Search's reserves portfolio, using the actual calorific value of each gas volume at its point of sale. Minor variations to the conversion factors may occur over time.

❖ SALES SUMMARY[1]

	QUARTER END			YEAR TO DATE		FULL YEAR
	SEP 2019	JUN 2019	SEP 2018	SEP 2019	SEP 2018	DEC 2018
Sales data						
PNG LNG PROJECT						
LNG (Billion Btu)	29,595	31,407	33,504	90,547	76,223	111,008
Condensate ('000 bbls)	602	573	786	1,828	1,834	2,635
Naphtha ('000 bbls)	64	95	61	250	202	295
PNG oil ('000 bbls)	358	391	483	1,228	1,348	1,923
HIDES GTE						
Gas (Billion Btu)[2]	1,434	1,092	1,393	3,982	2,818	4,286
Condensate & refined products ('000 bbls)[3]	22	17	23	65	51	82
Total barrels of oil equivalent sold ('000 boe)[4]	6,471	6,741	7,440	19,865	17,205	25,022
Financial data (US$ million)						
LNG and gas sales	293.1	302.2	364.8	909.9	763.2	1,160.1
Oil and condensate sales	58.0	66.9	98.1	196.3	235.9	326.0
Other revenue[5]	10.1	9.8	12.0	31.8	33.6	49.7
Total operating revenue	361.1	378.9	474.9	1,138.0	1,032.6	1,535.8
Average realised oil and condensate price (US$ per bbl)[6]	59.54	68.67	76.17	63.46	73.34	70.65
Average realised LNG and gas price (US$ per mmBtu)	9.44	9.30	10.45	9.63	9.65	10.06
Cash (US$m)	547.3	538.3	728.1	547.3	728.1	600.6
Debt (US$m)[7]						
PNG LNG financing	3,119.3	3,119.3	3,459.7	3,119.3	3,459.7	3,293.6
Corporate revolving facilities[8]	470.0	-	140.0	470.0	140.0	-
Net debt (US$m)	3,042.0	2,581.0	2,871.6	3,042.0	2,871.6	2,693.0

1. Numbers may not add due to rounding.
2. Relates to gas delivered under the Hides GTE Gas Sales Agreement.
3. Relates to refined products delivered under the Hides GTE Gas Sales Agreement or sold in the domestic market and condensate.
4. Gas and LNG sales volumes have been converted to barrels of oil equivalent using an Oil Search specific conversion factor of 5,100 scf = 1 boe, which represents a weighted average, based on Oil Search's reserves portfolio, using the actual calorific value of each gas volume at its point of sale and asset specific heating values. Minor variations to the conversion factors may occur over time.
5. Other revenue consists largely of rig lease income, infrastructure tariffs and electricity, refinery and naphtha sales.
6. Average realised price for Kutubu Blend including PNG LNG condensate.
7. Excludes lease liabilities recorded as borrowings.
8. As at 30 September 2019, the Company's corporate revolving facilities totaled US$1.2 billion, of which $470 million was drawn as borrowings and US$94.3 million of bank guarantees utilised.

PRODUCTION PERFORMANCE[1]

	QUARTER END SEP 2019		QUARTER END JUN 2019		% CHANGE	
	Gross daily production	Production net to OSH	Gross daily production	Production net to OSH	Gross daily production	Total q-on-q production net to OSH
Gas production	**mmscf/d**	**mmscf**	**mmscf/d**	**mmscf**		
PNG LNG Project						
LNG[2]	1,024	27,336	1,035	27,312	-1%	-
Gas to power	6	166	5	140	+17%	+19%
SE Gobe gas to PNG LNG[3]	13	258	20	397	-36%	-35%
Hides GTE gas[4]	15	1,336	11	1,019	+30%	+31%
Total gas	**1,058**	**29,096**	**1,071**	**28,868**	**-1%**	**+1%**
Oil and liquids production	**bopd**	**mmbbl**	**bopd**	**mmbbl**		
Kutubu	5,240	0.289	6,843	0.374	-23%	-23%
Moran	48	0.002	731	0.033	-93%	-93%
Gobe Main	370	0.003	374	0.003	-1%	-
SE Gobe[3]	357	0.007	449	0.009	-20%	-20%
Total PNG oil	**6,014**	**0.302**	**8,397**	**0.419**	**-28%**	**-28%**
Hides GTE liquids[4]	276	0.025	221	0.020	+25%	+27%
PNG LNG liquids	29,142	0.778	29,617	0.782	-2%	-1%
Total liquids	**35,432**	**1.105**	**38,235**	**1.221**	**-7%**	**-9%**
	boepd	**mmboe**	**boepd**	**mmboe**		
Total production[5]	**242,835**	**6.810**	**248,206**	**6.882**	**-2%**	**-1%**

1. Numbers may not add due to rounding. Where required, adjustments are taken in the affected production period.
2. Production net of fuel, flare and shrinkage and SE Gobe wet gas.
3. SE Gobe wet gas reported at inlet to plant, inclusive of fuel, flare and naphtha.
4. Hides GTE production is reported on a 100% basis for gas and associated liquids purchased by the Hides (GTE) Project Participant (Oil Search 100%) for processing and sale to the Porgera power station. Sales gas volumes are inclusive of approximately 2% unrecovered process gas.
5. Gas and LNG volumes have been converted to barrels of oil equivalent using an Oil Search specific conversion factor of 5,100 scf = 1 boe, which represents a weighted average, based on Oil Search's reserves portfolio, using the actual calorific value of each gas volume at its point of sale. Minor variations to the conversion factors may occur over time.

In August, it was observed that the mooring buoy at the offshore loading facility in the Gulf of Papua was listing. Further inspection identified that a section of the chain on one of the six mooring legs was damaged. Following the mobilisation of materials and equipment to site, repairs to the damaged chain were completed in mid-October. While precautionary maintenance work is ongoing on the other mooring chains at the facility, loading operations are now back to normal.

During the time the mooring buoy was damaged, an alternative procedure for the loading of liquids from the oil fields and PNG LNG condensate was implemented, with loading only taking place on an ebb tide and under suitable weather conditions. This resulted in a reduction in available storage in the export loading system, requiring a short period of rate reductions from the PNG LNG Project, with priority of ullage given to PNG LNG liquids. Due to limited storage capacity, oil production from the Kutubu, Moran and Agogo fields was curtailed while the mooring buoy repairs were undertaken. Oil Search's supply obligations for feed stock gas to the PNG LNG Project continued through the curtailment period.

As a result, third quarter production from the Kutubu field was 23% lower than in the second quarter, with production curtailed from late August and restricted to high gas producing wells, to support gas export to the PNG LNG Project, for the remainder of the quarter. Production from the Agogo field, which was shut-in on 20 August, is expected to come back on-line in mid-October.

Moran production was impacted by both the mooring buoy issue as well as compression outages at the Agogo Processing Facility (APF). Maintenance activities at the APF were brought forward and implemented while repairs to the mooring buoy took place.

Scheduled maintenance at the Gobe Processing Facility took place in July. The Gobe Main and South East Gobe fields remained online during the mooring buoy issue, to support feed stock gas export to the PNG LNG Project.

Operations at the Hides Gas to Electricity Project continued as normal during the curtailment period.

EXPLORATION AND APPRAISAL ACTIVITY

PNG

PNG Highlands

Pressures within the Muruk 2 appraisal well in PDL 9 continued to be monitored during the quarter. An update on contingent resource estimates is expected in the 2019 year-end Reserves and Resources Report.

Forelands / Gulf

Oil Search completed the second phase of 2D seismic acquisition over PPLs 475 and 476, located in the Eastern Foldbelt of the Onshore Papuan Basin. The survey was conducted on behalf of ExxonMobil and covered over 200 kilometres. As previously indicated, provisional interpretation of the data acquired has highlighted some interesting features which merit further investigation. Additional surveys in 2020 and 2021 are being considered to mature these potential drilling prospects, which lie close to planned Papua LNG infrastructure.

Central Foldbelt

Preparations took place during the quarter to drill an exploration well, Gobe Footwall, in PDL 4 (OSH – 65.5%). The well, which is planned to spud in the fourth quarter of 2019, will be drilled from an existing wellpad in the Gobe field and is targeting a potential oil or gas feature which, if successful, could be tied into the nearby Gobe production facilities. Subject to joint venture approvals, a gas development well, GM K, is planned to be drilled following the Gobe Footwall well.

Alaska

Preparations for the Company's two well, 2019/20 winter exploration programme, continued during the quarter. The Doyon Arctic Fox rig used in the 2018/19 winter drilling programme has been contracted to drill the Stirrup prospect located in the Horseshoe Block, while 7ES, a Nabors-owned rig, has been contracted to drill the Mitquq prospect in the Pikka East Block.

The Mitquq prospect is located approximately 10 kilometres from the proposed Pikka Unit ND-A pad. If successful, Mitquq has the potential to be tied-back to the proposed Pikka Unit CPF infrastructure, while success at the Stirrup prospect could help underpin a standalone CPF for the Horseshoe Block.

In addition, preparations continued to lay gravel for roads and pads during the exploration season, for the planned Pikka Unit development facilities.

DRILLING CALENDAR[1]

Subject to joint venture and government approvals, the 2019 drilling programme is as follows:

WELL	WELL TYPE	LICENCE	OSH INTEREST	TIMING
PNG				
Gobe Footwall	Exploration	PDL 4	65%	4Q19
Alaska				
Mitquq	Exploration	Pikka East	51%	1Q20
Stirrup	Exploration	Horseshoe Area	51%	1Q20

1. Well locations and timing subject to change.

FINANCIAL PERFORMANCE

Sales revenues

During the quarter, 29,595 billion Btu of LNG from the PNG LNG Project (net to Oil Search) was sold, 6% lower than sales volumes in the second quarter of 2019. A total of 26 LNG cargoes were delivered, comprising 18 cargoes sold under long term contract, five under mid-term sale and purchase agreements and three on the spot market, compared to 28 cargoes sold in the previous quarter. Three cargoes were on the water at the end of the period, compared to two at the end of the second quarter of 2019. Oil, condensate and naphtha sales volumes for the period totaled 1.02 mmbbl, 3% lower than liquid sales in the previous quarter. Three Kutubu Blend cargoes and two naphtha cargoes were sold during the period.

The average oil and condensate price realised during the quarter was US$59.54 per barrel, 13% lower than the previous quarter, reflecting a weaker period for global oil prices and a different product mix, with higher condensate volumes relative to crude oil during the mooring buoy disruption. The average price realised for LNG and gas sales increased 2% to US$9.44/mmBtu, reflecting the approximate three-month lag between the spot oil price and LNG contract prices. The Company did not undertake any hedging transactions during the period and remains unhedged.

Total sales revenue from LNG, gas, oil and condensate for the quarter declined 5% to US$361.1 million. Other revenue, comprising rig lease income, infrastructure tariffs, electricity, refinery and naphtha sales, increased from US$9.8 million to US$10.1 million.

Capital management

At 30 September 2019, Oil Search held liquidity of US$1.18 billion, comprising US$547.3 million in cash (US$538.3 million at the end of the second quarter) and US$635.7 million in undrawn corporate credit facilities (US$895.7 million at the end of the second quarter of 2019).

During the quarter, the Company arranged an additional US$300 million of corporate credit facilities with a one-year term, increasing the Company’s revolving credit lines to US$1.2 billion. US$470 million was drawn down from these credit facilities to help fund the Alaskan Option payment of US$450 million and the payment of interim dividends of US$76.2 million. The Company also drew down US$94.3 million in letters of credit (US$4.3 million at 30 June 2019). The Company received net proceeds of US$64.4 million as consideration for the revised ownership agreements executed with Repsol in second quarter, comprising a sell down of Horseshoe and other exploration licence interests for US$70.5 million and the acquisition of interests in certain Repsol exploration licences for US$6.1 million.

Oil Search ended the period with US$3.59 billion of debt outstanding (US$3.12 billion at the end of the previous quarter), related to the PNG LNG project finance facility and corporate debt.

Capital expenditure

During the quarter, Oil Search spent US$53.4 million on exploration and evaluation activities. This included pre-FEED expenditure for LNG expansion (US$14.8 million), the second phase of seismic acquisition in the onshore Papuan Basin (US$4.5 million) and pre-FEED works for the Pikka Unit development in Alaska (US$19.0 million).

US$12.0 million of exploration costs were expensed, mainly comprising seismic acquisition costs and geological, geophysical and general and administration expenses.

Development expenditure for the third quarter totaled US$15.8 million, of which US$13.2 million and US$2.6 million were attributable to the PNG LNG Project and Biomass project, respectively. Expenditure on producing assets was US$32.2 million, mainly attributable to the UDT S development well (US$14.8 million) and the Moran 15 ST2 well (US$6.4 million). Expenditure on other property, plant and equipment was US$8.5 million.

❖ SUMMARY OF INVESTMENT EXPENDITURE AND EXPLORATION AND EVALUATION EXPENSED[1]

	QUARTER END			YEAR TO DATE		FULL YEAR
	SEP 2019	JUN 2019	SEP 2018	SEP 2019	SEP 2018	DEC 2018
Investment Expenditure						
Exploration & Evaluation						
PNG	26.0	41.9	96.8	105.0	185.1	231.0
USA	27.3	403.2[4]	10.3	478.4	436.1	483.5
MENA	0.1	0.2	-	0.3	1.0	0.3
Total Exploration & Evaluation	**53.4**	**445.3**	**107.1**	**583.7**	**622.2**	**714.8**
Development						
PNG LNG	13.2	6.8	9.0	24.1	26.2	36.8
Biomass	2.6	2.3	2.6	6.8	8.4	10.7
Total Development	**15.8**	**9.1**	**11.6**	**30.9**	**34.6**	**47.5**
Production	32.2	14.3	4.4	59.9	11.2	21.7
PP&E	8.5	6.2	13.1	21.0	29.5	51.4
Total	**109.9**	**474.9**	**136.3**	**695.5**	**697.4**	**835.4**
Exploration & Evaluation Expenditure Expensed[2,3]						
PNG	6.6	7.7	23.4	22.3	32.6	51.8
USA	5.4	4.3	1.6	14.1	3.6	14.3
MENA	0.1	0.2	-	0.2	1.1	0.3
Total current year expenditures expensed	12.0	12.2	25.0	36.6	37.3	66.4
Prior year expenditures expensed	-	-	-	-	-	-
Total	**12.0**	**12.2**	**25.0**	**36.6**	**37.3**	**66.4**

1. Numbers may not add up due to rounding.
2. Exploration costs expensed includes unsuccessful wells, exploration seismic and certain costs related to administration costs and geological and geophysical activities. Costs related to permit acquisitions, the drilling of wells that have resulted in a successful discovery of potentially economically recoverable hydrocarbons and appraisal and evaluation of discovered resources are capitalised.
3. Numbers do not include expensed business development costs of US$1.4 million in the third quarter of 2019 (US$2.1 million in the second quarter of 2019).
4. Includes US$450 million Alaska acquisition costs on exercising the Armstrong / GMT Option, net of US$70.5 million farm-down proceeds (2018: Includes initial Alaska acquisition costs of US$415 million).

Gas/LNG Glossary and Conversion Factors Used[1,2]

Mmscf	Million (10^6) standard cubic feet
mmBtu	Million (10^6) British thermal units
Billion Btu	Billion (10^9) British thermal units
MTPA (LNG)	Million tonnes per annum
Boe	Barrel of oil equivalent
1 mmscf LNG	Approximately 1.10 - 1.14 billion Btu
1 boe	Approximately 5,100 standard cubic feet
1 tonne LNG	Approximately 52 mmBtu

1. Minor variations in conversion factors may occur over time, due to changes in gas composition.
2. Conversion factors used for forecasting purposes only.

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Managing Director

22 October 2019

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DISCLAIMER

This report contains some forward-looking statements which are subject to particular risks associated with the oil and gas industry. Actual outcomes could differ materially due to a range of operational, cost and revenue factors and uncertainties including oil and gas prices, changes in market demand for oil and gas, currency fluctuations, drilling results, field performance, the timing of well workovers and field development, reserves depletion and fiscal and other government issues and approvals.